ALJ/MEG/jva **Mailed 9/26/2005**

Decision 05-09-039 September 22, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Southern California Gas Company (U904G) for Authority to Increase its Gas Revenue Requirements to Reflect its Accomplishments for Demand-Side Management Program Year 1994 and 1997, and Low-Income Program Years 2002 and 2003 in the 2004 Annual Earnings Assessment Proceeding ("AEAP").	Application 00-05-002 (Filed May 1, 2000)
And Related Matters.	Application 00-05-003 Application 00-05-004 Application 00-05-005 Application 01-05-003 (Filed May 1, 2000) Application 01-05-009 Application 01-05-017 Application 01-05-018 (Filed May 1, 2001) Application 02-05-002 Application 02-05-003 Application 02-05-005 Application 02-05-007 (Filed May 1, 2002) Application 03-05-002 Application 03-05-003 Application 03-05-004 Application 03-05-009 (Filed May 3, 2003) Application 04-05-005 Application 04-05-008 Application 04-05-010 (Filed May 3, 2004) Application 04-05-012 (Filed May 7, 2004)

INTERIM OPINION: REASONABLENESS OF INCREMENTAL COSTS FOR PROGRAM YEAR 2001, 2002 AND 2003 INTERRUPTIBLE LOAD AND ROTATING OUTAGES PROGRAMS

1. Summary[1]

By this decision, we adopt the findings of Energy Division's auditor regarding the reasonableness of amounts booked to the interruptible load and rotating outages program memorandum accounts of Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) for program years (PY) 2001, 2002 and 2003.[2]

Table 1 presents the amounts requested by the utilities, the auditor's recommended adjustments, and the amounts authorized by this decision based on those adjustments. For the three utilities combined, we authorize recovery of $10,590,551 in costs recorded in these accounts for PY 2001, 2001 and 2003.

We commend Energy Division for the thoroughness of its audit and the clarity with which it presented its findings and recommendations. We note that Energy Division's auditor recommendations were uncontested. As discussed in this decision, Commission staff should continue to audit costs booked to the interruptible load and rotating outages program memorandum accounts that are submitted for cost recovery in future Annual Earnings Assessment Proceedings.

2. Background

In Decision (D.) 01-07-029, the Commission identified the Annual Earnings Assessment Proceeding (AEAP) as the forum for considering the reasonableness of utility administrative costs associated with interruptible load and rotating

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[1] Attachment 1 explains each acronym or other abbreviation that appears in this decision.

[2] We refer to PG&E, SCE and SDG&E collectively as "the utilities" in this decision.

outages programs. The utilities maintained on average six to eight of these programs over the 2001-2003 audit period, including the following:

- Optional Binding Mandatory Curtailment Program. This program exempts participants (large commercial and industrial customers) from rotating outages if hey can reduce the load on their entire circuit by the required amount for the entire duration of every rotating outage. Participants must be able to reduce their circuit load by up to 15%, increments of 5%. Failure to reduce their load results in penalties equal to to $6/kilowatt-hour (kWh) for all excess energy. Program participants pay the cost of any equipment (e.g., communication and metering) required to participate in the program.
- Demand Bidding Program. This program offered day-ahead" and "day-of"[3] price incentives to customers for reducing energy consumption during periods when the Independent System Operator determines that load relief may be needed. The bidding program offers customers with demands greater than 200 kWh an opportunity to receive incentive payments by voluntarily reducing power without incurring any financial penalty.
- Scheduled Load Reduction Program (SLRP). This program is offered to qualified bundled service customers with an average monthly demand of 100 kW or greater, and willingness to reduce power usage by at least 15%, but not less than 100kW. The incentive to customers in curtailing their energy use is $0.10/kWh of measured reduction. However, customers' power reductions are effective only during pre-scheduled days and times from June 1 to September 30. Qualified customers are required to remain in the program upon installation of interval meter for a minimum of one year and comply with at least five SLRP events. If the customer fails to comply with the requirement, they are responsible for reimbursing the utility for the cost of the meter installed.

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[3] In 2005, the Commission modified this program by removing the "day-of" component.

To track the costs and revenues associated with these and other interruptible tariffs and rotating outages programs, the Commission directed the utilities to establish an Interruptible Load Program Memorandum Account (ILPMA), as follows:

> "The memorandum account shall track all dollars spent above funds authorized in current rates to implement any program, activity, study or report ordered herein. The accounting shall separately identify the cost and revenue associated with each program, activity, study or report (e.g., separately track costs and revenues for the new Baseload Interruptible Program, Voluntary Demand Response Program, each curtailment study, each report). Each respondent utility may include interest on the balance. The burden to demonstrate reasonableness for future cost recovery shall be on each respondent utility . . . . Upon a finding of reasonableness, balances in each memorandum account shall be recovered from ratepayers without respect to any policies otherwise in place regarding the end of the rate freeze. Memorandum account balances shall be reviewed in each utility's Annual Earnings Assessment Proceedings."[4]

By D.03-08-028, we directed Energy Division to perform an audit of these accounts for our consideration. To date, Energy Division has completed audits for all three electric utilities for program years 2001-2003.

On May 20, 2005, Energy Division's auditor submitted separate reports for each utility to the assigned Administrative Law Judge (ALJ) and posted them to the Commission's website.[5] By ruling dated June 6, 2005, the assigned ALJ solicited written comments on Energy Division's audit reports and recommendations. PG&E, SCE and SDG&E filed opening comments on June 15, 2005. No reply comments were filed. On June 30, 2005, the Energy Division

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[4] D.01-07-029, as modified by D.01-04-006 and D.01-04-009, Ordering Paragraph 15.

[5] Copies can be viewed at http://www.cpuc.ca.gov/static/industry/electirc/interruptible+accounts/index.htm.

auditor submitted to the assigned ALJ a supplement to its audit report for SDG&E, in response to SDG&E's opening comments. This document was also posted on the Commission's website.

On July 28, 2005, in response to the assigned ALJ's request, the utilities filed a joint recommendation for uniform ratemaking treatment to recover the ILPMA balances.[6]

3. Energy Division's Audit: Scope, Methodology and Recommendations

Energy Division's audit covers all of the incremental costs booked to the ILPMA for 2001-2003. These costs included (1) labor costs, (2) non-labor costs (e.g., new hardware, software or applications, air conditioner devices, printing of marketing material, postage and design, etc.), (3) circuit configurations, (4) incentive payments, reduced by revenues from penalties, and (5) interest, as authorized by D.01-07-029.

In developing its recommendations, the Energy Division auditor interviewed utility personnel, reviewed utility accounting statements and records, gathered information supporting recorded cost entries in the ILPMA, applied auditing procedures, including sampling methods, and analyzed the information for reasonableness. In particular, the auditor reviewed incremental cost summaries for each month during the audit period, and selected particular months to sample for detailed examination. Attachment 2 presents a more detailed description of the audit approach.

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[6] *Joint Filing of PG&E, SCE and SDG&E Addressing Rate Recovery of the Interruptible Load Management Program Memorandum Account*, July 28, 2005.

3.1. PG&E

PG&E requests recovery of $2,493,196 booked to its ILPMA over the 2001-2003 audit period. The auditor sampled approximately 75% of PG&E's total request for review, broken down by program/activity as follows:[7]

• Circuit Configuration and Reconfiguration Studies	86.45%
• Mandatory Customer Notification/Mailing	95.86%
• Outbound Calling Program	68.41%
• Demand Bidding Program	77.05%
• Base Interruptible Program	88.03%
• Optional Binding Mandatory Curtailment Program	60.02%
• Scheduled Load Reduction Program	53.12%
• Voluntary Demand Response Program	62.94%
• Customer Program Admin. & General Expenses	64.30%
• Customer Program Admin. & General Expenses - Non-Firm Rates	52.32%
• CEC Excess Funding	100%

The auditor identified no material misstatement from the sampling of these program costs. However, he did make minor audit adjustments amounting to a disallowance of $37,783 for incremental costs not supported by PG&E during the course of the audit, or costs that PG&E had already included in its 2003 general rate case. Moreover, the auditor also increased the recoverable amounts by accrued interest that PG&E had not computed, for an upward adjustment of $24,449.

[7] The auditor's report includes a month-by-month breakdown of the total dollar amount of expenses (documents) sampled in each month, by program, to derive these percentages.

The primary adjustment made by the auditor was to reduce the account balances by the amount of ILPMA costs included in PG&E's bankruptcy settlement (under its "headroom account"), including interest. This results in a $2,331,660 reduction to amounts recoverable under the ILPMA. Overall, the auditor recommends that PG&E be allowed to recover $148,202 in ILPMA incremental costs and interest. PG&E concurs with these recommendations.

3.2. SCE

SCE requests recovery of $8,760,747 booked to its ILPMA for the years 2001, 2002 and through May 22, 2003. SCE ceased recording interruptible load program and rotating outage-related costs in its ILPMA as of May 22, 2003, when its Phase I General Rate Case revenue requirement became effective. As of that date, SCE recovers all of these costs through the authorized Phase 1 revenue requirement.[8]

The auditor sampled approximately 70% of SCE's request for review, broken down by program / activity as follows:

• Rotating Outages	73.05%
• Air Conditioner Cycling Program	83.42%
• Demand Bidding Program	52.44%
• Scheduled Load Reduction Program	41.84%
• Base Interruptible Program	52.12%
• Optional Binding Mandatory Curtailment Program	68.94%
• Voluntary Demand Response Program	75.88%

[8] See D.04-07-022, issued July 16, 2004, making SCE's 2003 General Rate Case Phase I revenue requirement effective on May 22, 2003.

The auditor made downward adjustments to SCE's requested amounts that total $10,610. These reflect adjustments to interest calculations and capital investment incremental costs, to correct calculation or allocation errors. Overall, the auditor recommends that SCE be authorized to recover $8,750,137 in ILPMA incremental costs incurred in 2001, 2002 and 2003 (through May 22, 2003). SCE concurs with these recommendations.

3.3. SDG&E

SDG&E requests recovery of $1,734,900 booked to its ILPMA for 2001-2003 expenditures.[9] The auditor sampled approximately 84% of this requested amount for review, broken down by program and activity as follows:

• Rolling Blackout Reduction Program	89.74%
• Air Conditioner Cycling Program	77.48%
• Demand Bidding Program	86.90%
• Scheduled Load Reduction Program	56.81%
• Base Interruptible Program	57.11%
• Optional Binding Mandatory Curtailment Program	61.78%
• Voluntary Demand Response Program	36.75%
• Temperature Sensitive	66.15%

In its May 20, 2005 report, the auditor recommended downward adjustments to SDG&E's request to reflect: (1) an adjustment of approximately $3,500 in interest calculations, (2) corrections to erroneous cost allocations of approximately $39,000, and (3) removal of approximately $127,000 in costs associated with SDG&E's incentive compensation plan (ICP).

[9] SDG&E actually names this account the "Interruptible Load and Rotating Outages Program Memorandum Account" or "ILROPMA," rather than ILPMA. However, for ease of reference, we use a single common name for these memorandum accounts (ILPMA) throughout this decision.

In particular, the auditor concluded that SDG&E's ICP-related costs should not be recovered through the ILPMA because: "SDG&E already included the ICP in their Test Year 2004 - Cost of Service Proceeding (i.e., 2001, 2002 and 2003 cost of service), and the Commission has already decided in D.04-12-015 dated December 2, 2004, how much ICP costs SDG&E should receive via rates."[10]

In its comments dated June 15, 2005, SDG&E disagreed with this conclusion, and explained:

> "Because the Commission did not order utilities to establish the new programs until 2001, the program costs including ICP would not have been anticipated during the preparation of the 1999 Cost of Service filing and, therefore, not included in the revenue requirements adopted for the years 1999 through 2003. ICP represents costs paid to Company employees that are directly driven by and applied to the productive labor recorded in the [ILPMA] on a monthly basis. This accounting treatment is consistent with other directly assigned incremental overhead costs (i.e. vacation and sick time, payroll taxes, and pensions and benefits) that were recommended for recovery in the Audit Report. [Footnote omitted.] Therefore, the incremental ICP costs should also be appropriately recovered as part of incremental program costs, as these costs were not recovered through the rates established in the relevant Cost of Service proceeding (D.98-12-038) and would not have been incurred absent the implementation of the new interruptible load and rotating outage programs established in D.01-04-006."[11]

On June 30, 2005, the auditor prepared a supplement to his May 20, 2005 audit report for SDG&E, stating that he had reviewed SDG&E's comments and now concurs that the $126,986 ICP costs are valid and should be recovered in the ILPMA. Accordingly, the auditor recommends that SDG&E be authorized to recover $1,692,212 in incremental costs booked to this account for 2001-2003.

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[10] *Energy Division Audit Report, SDG&E,* May 20, 2005, p. 3.

[11] *Comments of SDG&E on Energy Division's Audit of the ILMPMA*, June 15, 2005, pp. 3-4.

4. Discussion

We have reviewed the audit reports and commend Energy Division's auditor on the thoroughness of his review and the clarity with which the findings and recommendations are presented. As discussed above, these findings and recommendations are uncontested. We find them to be reasonable and thereby authorize the amounts recommended in the auditor's reports, including the June 30, 2005 supplement for SDG&E. Table 1 presents the amounts requested by the utilities, the auditor's recommended adjustments, and the amounts authorized by this decision.

For recovery of these authorized amounts, we will adopt the utilities' joint recommendation regarding ratemaking treatment. In particular, they recommend that each utility utilize the procedures currently in place to true-up balancing account balances and recover revenue requirement increases approved in proceedings that do not merit their own rate changes. These are:

- For PG&E, the Annual Electric True-Up advice letter filing. PG&E initially submits this filing on or about September 1 of each year and updates it in November for a January 1 rate change.
- For SCE, the Electric Resource Recovery Account Forecast application. SCE files this application each year on August 1 for setting rate in the subsequent year, and
- For SDG&E, the Electric Resource Recovery Account. In October of each year, SDG&E files an advice letter requesting to apply the projected year-end balances in this account as a twelve-month amortization to electric distribution rates effective January 1 of the following year.

Today's decision addresses all issues related to the reasonableness of ILPMA balances submitted for review in this consolidated proceeding. With respect to future filings, as discussed in Section 3.2 above, SCE has ceased recording interruptible load program and rotating outage-related costs in its ILPMA as of May 22, 2003. Accordingly, SCE has recorded no costs after that date in that account, and does not seek recovery of such costs in its 2005 AEAP application.[12]

SDG&E will also not be seeking cost recovery for operations and activities related to implementation of its interruptible load/rotating outage programs in subsequent AEAPs. As SDG&E explains in its 2005 AEAP application, this is because D.04-12-015 authorizes SDG&E "to collect through rates and authorized ratemaking accounting, Test Year Base Margin (O&M) costs" for these programs.[13] However, SDG&E does seek to recover 2004 costs related to customer incentive payments and 2003 capital expenditures, as well as accumulated interest, in that application. Since PG&E has not been authorized to include the interruptible load/rotating outage program costs in base rates, PG&E continues to track all incremental administrative costs in its ILPMA, and has included its request for cost recovery in its 2005 AEAP application.[14]

PG&E's and SDG&E's requests for ILPMA cost recovery in the 2005 AEAP, as well as future requests in subsequent AEAPs, should be audited by the Commission. We recognize that there are many constraints on Commission staffing resources. Therefore, while we prefer to have the audit report submitted by January 30, 2006 for the amounts requested in the 2005 AEAP applications, we will direct the Executive Director to establish the final scope, schedule, and budget for these audits, taking into consideration Commission priorities and the availability of Commission staff resources. In order to allow for good case

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[12] See A.05-05-005, filed on May 2, 2005, p. 29.

[13] See A.05-05-003, Direct Testimony of Susie E. Sides, May 2, 2005, p. 4

[14] See A.05-06-004, May 2, 2005, Volume V.

management that is consistent with statutory deadlines, and to the extent that resources allow, we would like to finalize our evaluation of all issues addressed in those applications during the first quarter of 2006. For future program years, we would prefer that the Executive Director set a schedule that allows the audit report to be submitted within 180 days from the filing date of the AEAP applications, again, understanding that staffing constraints and other Commission priorities must be considered.

Commission staff should submit the results of these audits and associated recommendations to the Assigned Commissioner and ALJ in the respective AEAP. Commission staff may conduct the audit itself, or hire consultants for this purpose. As we directed in D.03-08-028, the costs of these audits should be added to the utilities' memorandum accounts for recovery in rates, and allocated to each utility in proportion to the relative size of the costs recorded in its ILPMA.

5. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Therefore, the otherwise applicable 30-day period for public review and comment is being waived pursuant to Public Utilities Code § 311(g)(2).

6. Assignment of Proceeding

Susan P. Kennedy is the Assigned Commissioner and Meg Gottstein is the assigned ALJ in this proceeding.

Findings of Fact

1. Energy Division has audited the reasonableness of amounts booked to the interruptible load and rotating outages program memorandum accounts for 2001-2003, consistent with the Commission's direction in D.01-07-029 and D.03-08-028.

2. The auditor's recommendations are uncontested.

Conclusions of Law

1. Subject to the adjustments proposed by Energy Division's auditor, the utilities should be authorized to recover the amounts booked to the ILMPA for 2001-2003.

2. As discussed in this decision, recovery of authorized amounts in the ILMPA should utilize procedures currently in place to true-up balancing account balances and recover revenue requirement increases approved in proceedings that do not merit their own rate changes.

3. Because this is an uncontested manner where the decision grants the relief requested, it is reasonable to waive the period for public review and comment on the draft decision per Rule 77.7 (f) of the Commission's Rules of Practice and Procedure.

4. To avoid further delay in addressing these uncontested matters, today's decision should be effective immediately.

INTERIM ORDER

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E), Southern California Edison Company (SCE) and San Diego Gas & Electric Company (SDG&E) are authorized to recover the amounts presented in Table 1, which have been recorded in their respective interruptible load program memorandum accounts (ILPMA) during 2001, 2002 and 2003.

2. To recover these authorized amounts, each utility shall utilize procedures currently in place to true-up balancing account balances and recover revenue requirement increases approved in proceedings that do not merit their own rate changes. As discussed in this decision, these are:

- For PG&E, the Annual Electric True-Up advice letter filing;
- For SCE, the Electric Resource Recovery Account Forecast application, and
- For SDG&E, the Electric Resource Recovery Account advice letter filing.

3. Requests in subsequent Annual Earnings Assessment Proceedings (AEAPs) for recovery of incremental costs recorded in the ILPMA shall be audited by the Commission. The Executive Director shall have the flexibility to establish the final scope, schedule and budget for these audits, taking into consideration the availability of Commission staff resources. Commission staff shall submit the results of these audits and associated recommendations to the Assigned Commissioner and Administrative Law Judge in the respective AEAP. As directed in Decision 03-08-028, the costs of these audits shall be added to the utilities' ILPMAs for recovery in rates, and allocated to each utility in proportion to the relative size of the costs recorded in its ILPMA.

4. This consolidated proceeding remains open to address additional issues related to earnings claims.

This order is effective today.

Dated September 22, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners

TABLE 1: REQUESTED AND AUTHORIZED 2001-2003 INCREMENTAL COSTS IN ILPMA

PG&E	**2001**	**2002**	**2003**	**Total**
(a) Requested	$1,284,986	$773,204	$435,006	$2,493,196
(b) Auditor Adj				
Interest	$2,177	-$548	$22,820	$24,449
Headroom	-$1,287,163	-$878,312	-$166,185	-$2,331,660
Other	-$766	-$2,034	-$34,983	-$37,783
Subtotal:	-$1,285,752	-$880,894	-$178,348	-$2,344,994
(c) **Authorized**	**-$766**	**-$107,690**	**$256,658**	**$148,202**
SCE				
(a) Requested	$2,689,153	$4,123,746	$1,947,848	$8,760,747
(b) Auditor Adj				
Interest	-$2,302	-$2,555	-$131	-$4,988
Labor/alloc.	$0	-$5,073	-$549	-$5,622
Subtotal:	-$2,302	-$7,628	-$680	-$10,610
(c) **Authorized**	**$2,686,851**	**$4,116,118**	**$1,947,168**	**$8,750,137**
SDG&E				
(a) Requested	$467,138	$781,847	$485,915	$1,734,900
(b) Auditor Adj				
Interest/Other	$33,781	-$75,729	-$740	-$42,688
(c) **Authorized**	**$500,919**	**$706,118**	**$485,175**	**$1,692,212**

(END OF TABLE 1)

ATTACHMENT 1
LIST OF ACRONYMS

AEAP	Annual Earnings Assessment Proceeding
ALJ	Administrative Law Judge
D.	Decision
ICP	Incentive Compensation Plan
ILPMA	Interruptible Load Program Memorandum Account
kWh	kilowatt-hour
PG&E	Pacific Gas and Electric Company
PY	Program Year
SCE	Southern California Edison Company
SDG&E	San Diego Gas & Electric Company
SLRP	Scheduled Load Reduction Program

(END OF ATTACHMENT 1)

ATTACHMENT 2
INTERRUPTIBLE LOAD & ROTATING OUTAGE PROGRAMS
MEMORANDUM ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING

Audit Objective

To assure reasonableness of program costs and revenues recorded in the Interruptible Load Management Program Memorandum Account (ILPMA) by PG&E and SCE and in the Interruptible Load and Rotating Outage Programs Memorandum Account (ILROPMA) by SDG&E. Program costs are incremental costs incurred by PG&E, SCE and SDG&E, above the current rates authorized by the Commission, and reduced by any revenues from penalties or other funds received.

Audit Procedures

1. Obtain documents and supports in order acquire understanding of Interruptible Load Management Program (ILMP) background and processes

   A. Obtain and review relevant decisions, documents, and reports for 2001, 2002, and 2003 in support of accounting activities.

      - Commission Decisions related to ILPMA/ILROPMA and its relevance to accounting of program costs and revenues
      - Annual Earnings Assessment Proceeding Report (AEAP) for 2002, 2003 & 2004 ILMP activities
      - ILMP plans, descriptions and budget information
      - Description of accounting and reporting system
      - Accounting procedures related to ILPMA/ILROPMA costs and revenues
      - Flowcharts of Accounting process (e.g., Accounts Payable process, General Ledger record keeping) related to ILPMA/ILROPMA
      - Organizational charts of the individuals involved with the ILMP including description of each responsibilities
      - Internal and external audit reports issued to the utility relating to Interruptible Load Management programs and operations
      - Sample of Accounting reports (e.g., SAP records, Memorandum Account reports, Accounts Payable Summary Reports, etc.)
      - ILPMA/ILROPMA costs and revenues for 2001, 2002, and 2003, summarized by month and year
      - Summary reports for 2001, 2002, and 2003 showing ILMP costs & revenues by program
      - Preliminary Statements & Tariff rates
      - Sample of signed agreements between the utility and ILMP participants
      - Report showing all contracts signed by the utility and participants for 2001, 2002, and 2003.

ATTACHMENT 2
INTERRUPTIBLE LOAD & ROTATING OUTAGE PROGRAMS
MEMORANDUM ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING

2. Test and evaluate the utility's system of accounting and internal controls to ensure adequacy, effective compliance and timely recording of data

   A. Evaluate the utility's internal control relating to:

      - Controls over information processing
      - Segregation of duties
      - Accurate and timely recording of transactions

   B. Determine if system of internal control was audited by the utility's internal and/or external auditors

      - Obtain copies of audit reports relating to examination of internal controls
      - Obtain explanations to internal control issues raised by the auditors
      - Determine any corrective actions made to resolve internal control issues
      - Determine frequency of audit of financial records related to ILPMA/ILROPMA & ILMP

   C. Obtain and review copies of policies relating to accounting of incentive payments or invoices

   D. Review flowchart of accounting systems involved in the process of payments, tracking of costs and recording of incentive payments or invoices

   E. Interview accounting personnel responsible for recording and payment of expenditures

      - Determine if proper regulatory compliance were met and if accounting integrity of costs and revenue transactions recorded in the memorandum account were maintained
      - Evaluate separation of duties to prevent improper use of funds

ATTACHMENT 2
INTERRUPTIBLE LOAD & ROTATING OUTAGE PROGRAMS
MEMORANDUM ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING

F. Interview program managers responsible for program administration and oversight of ILMP expenditures

- Review program controls, including incentive payment and invoice review, and approval processes, verification procedures, authorization and approval levels, and financial checks and balances

G. Assure that the system of internal control is followed consistently from year to year

3. Review ILPMA/ILROPMA entries to determine proper and complete recording of expenditures and revenues

A. Determine memorandum accounts established

- Determine if memorandum accounts were established for each program. If not, determine how the programs were classified in the memorandum accounts.

B. Determine actual expenditures incurred during the year using SAP reports, and summary of invoices paid annually

C. Verify and review recorded entries for validity and accuracy

- Explain any major adjustments made in the memorandum account and determine validity

D. Trace entries from sources (invoices, etc) to the memorandum account

- Follow audit trails
- Determine unusual and extraordinary entries
- Determine if entries are supported and documented

ATTACHMENT 2
INTERRUPTIBLE LOAD & ROTATING OUTAGE PROGRAMS
MEMORANDUM ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING

4. Obtain evidence of transactions and verify all expenditure reports to determine if all payments were made properly and accurately

   A. Obtain documents in support of operational activities

      - Test accounting systems and controls for ILMP expenditures and identify weaknesses

   B. Obtain reports and summaries of all ILMP expenditures for years 2001, 2002 and 2003

      - Determine how expenditures were summarized
      - Obtain expenditure reports from the utility

5. Inspect invoices and determine if they were paid and recorded on a timely basis, accurately and properly.

   A. Apply sampling methods and select samples to review

      - Based on the population of paid incentives/invoices, apply sampling method to determine the size of samples to be reviewed
      - Depending on the size of the samples selected, either judgmental or unrestricted random sampling will be used as sampling technique.
      - Explain basis of sampling method used
      - Determine and support reasons for samples selected
      - Test samples for completeness, accuracy, and appropriateness
      - Describe and support results of sampling test

   B. Obtain invoices based on the sampling method selected

      - Determine if invoices paid are for valid programs, properly identified as ordered by the Commission
      - Determine if invoices paid and being tested showed proper approval and calculated accurately
        - Prove calculation – verify correctness of information for taxes and discounts, etc.

ATTACHMENT 2
INTERRUPTIBLE LOAD & ROTATING OUTAGE PROGRAMS
MEMORANDUM ACCOUNT
AUDIT PROGRAM FIELD WORK – ACCOUNTING

C. Trace invoices to payment records

- Compare invoices with payments records and reconcile totals

D. Trace payments to SAP accounting records

- Obtain SAP reports showing invoices paid and total amounts paid by month for 2001, 2002 and 2003
- Determine if reports and summaries are prepared periodically
- Determine if ILMP expenditures were reconciled with SAP accounting reports and summaries

E. Investigate for any duplicate invoices and payments

- Verify invoice numbers, amounts paid, payee and description of work to ensure that no duplication of payments or charges was made.

6. Determine revenues received from penalties or from other funding

- Obtain documents to support reported revenues
- Review computation for accuracy and completeness

(END OF ATTACHMENT 2)